

CommonWealth Kitchen, Inc.

Financial Statements
and
Independent Auditors' Report

December 31, 2017



DANIEL DENNIS & Co
Certified Public Accountants

Independent Auditors' Report

The Board of Directors
CommonWealth Kitchen, Inc.

We have audited the accompanying financial statements of CommonWealth Kitchen, Inc. (a nonprofit organization), which comprise the statement of financial position as of December 31, 2017 and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of CommonWealth Kitchen, Inc. as of December 31, 2017, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Daniel Dennis & Company LLP

September 17, 2018

CommonWealth Kitchen, Inc.
Statement of Financial Position
December 31, 2017

Assets

Current Assets

Cash	\$ 462,418
Accounts receivable - net	90,249
Pledges receivable	207,100
Grants receivable	32,753
Loan receivable	10,000
Prepaid expenses	<u>2,725</u>
Total current assets	<u>805,245</u>

Fixed Assets

Furniture, fixtures and equipment	463,359
Accumulated depreciation	(81,420)
Leasehold improvements	35,722
Accumulated amortization	<u>(6,159)</u>
Net fixed assets	<u>411,502</u>

Other Assets

Website - net	1,708
Deposits	<u>17,280</u>
Total other assets	<u>18,988</u>
Total assets	<u><u>\$ 1,235,735</u></u>

Liabilities and Net Assets

Current Liabilities

Accounts payable	\$ 37,040
Accrued interest	18,547
Accrued payroll	17,662
Security deposits	36,581
Due to related party	6,838
Loans payable	<u>114,000</u>
Total current liabilities	<u>230,668</u>

Other Liabilities

Deferred rent	<u>57,600</u>
Total liabilities	<u>288,268</u>

Net Assets

Unrestricted	630,367
Temporarily restricted	<u>317,100</u>
Total net assets	<u>947,467</u>
Total liabilities and net assets	<u><u>\$ 1,235,735</u></u>

See accompanying notes to financial statements.

CommonWealth Kitchen, Inc.
Statement of Activities
For the Year Ended December 31, 2017

	<i>Unrestricted</i>	<i>Temporarily Restricted</i>	<i>Total</i>
<i>Revenue and Other Support</i>			
Rental and storage fees	\$ 483,050	\$ -	\$ 483,050
Grants and contributions	1,335,913	317,100	1,653,013
Management fees	45,372	-	45,372
Other fees	319,575	-	319,575
Debt forgiveness	210,912	-	210,912
Miscellaneous income	11,033	-	11,033
Net assets released from restrictions	<u>133,155</u>	<u>(133,155)</u>	<u>-</u>
Total revenue and other support	<u>2,539,010</u>	<u>183,945</u>	<u>2,722,955</u>
<i>Expenses</i>			
Program services	1,572,423	-	1,572,423
Administration	294,639	-	294,639
Fundraising	<u>196,847</u>	<u>-</u>	<u>196,847</u>
Total expenses	<u>2,063,909</u>	<u>-</u>	<u>2,063,909</u>
Change in net assets	475,101	183,945	659,046
Net assets at beginning of year	<u>155,266</u>	<u>133,155</u>	<u>288,421</u>
Net assets at end of year	<u>\$ 630,367</u>	<u>\$ 317,100</u>	<u>\$ 947,467</u>

See accompanying notes to financial statements.

CommonWealth Kitchen, Inc.
Statement of Functional Expenses
For the Year Ended December 31, 2017

	<i>Program Services</i>	<i>Administration</i>	<i>Fund- Raising</i>	<i>Total</i>
Salaries and wages	\$ 668,998	\$ 117,888	\$ 72,672	\$ 859,558
Payroll taxes and fringe benefits	75,203	12,324	7,592	95,119
Management and consulting fees	12,112	12,594	101,437	126,143
Professional fees	-	38,630	-	38,630
Rent	314,334	3,900	2,380	320,614
Utilities	90,565	1,124	685	92,374
Cleaning and trash removal	23,463	291	178	23,932
Depreciation and amortization	61,976	769	469	63,214
Interest expense	-	14,928	-	14,928
Supplies	181,028	8,557	5,217	194,802
Office expense	27,977	5,171	3,152	36,300
Tools and equipment	10,366	129	78	10,573
Telephone and internet	3,151	581	356	4,088
Building security	1,223	15	9	1,247
Permits and filing fees	2,231	28	17	2,276
Repairs and maintenance	51,597	641	390	52,628
Insurance	30,581	380	231	31,192
Staff development	8,557	1,581	964	11,102
Bad debt expense	-	73,433	-	73,433
Miscellaneous expense	9,061	1,675	1,020	11,756
	<u>9,061</u>	<u>1,675</u>	<u>1,020</u>	<u>11,756</u>
Total	<u>\$ 1,572,423</u>	<u>\$ 294,639</u>	<u>\$ 196,847</u>	<u>\$ 2,063,909</u>

See accompanying notes to financial statements.

CommonWealth Kitchen, Inc.
Statement of Cash Flows
For the Year Ended December 31, 2017

<i>Cash Flows From Operating Activities</i>	
Change in net assets	\$ 659,046
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation and amortization	63,214
Bad debt expense	73,433
Debt forgiveness	(210,912)
Changes in operating assets and liabilities:	
Decrease in accounts receivable	8,164
Decrease in grants receivable	121,379
Increase in pledges receivable	(104,600)
Increase in loan receivable	(10,000)
Decrease in prepaid expenses	29,781
Decrease in accounts payable	(89,390)
Decrease in security deposits	(1,950)
Decrease in due to related party	(53,162)
Decrease in accrued payroll	(5,069)
Increase in accrued interest	<u>7,809</u>
Net cash provided by operating activities	<u>487,743</u>
<i>Cash Flows From Investing Activities</i>	
Payments for fixed assets	<u>(233,706)</u>
Net cash used in investing activities	<u>(233,706)</u>
<i>Cash Flows From Financing Activities</i>	
Proceeds from loans payable	250,428
Principal payments on loans payable	<u>(265,000)</u>
Net cash used in financing activities	<u>(14,572)</u>
Net increase in cash	239,465
Cash at beginning of period	<u>222,953</u>
Cash at end of period	<u><u>\$ 462,418</u></u>
<i>Supplemental Disclosure</i>	
Cash paid for interest	<u><u>\$ 7,119</u></u>

See accompanying notes to financial statements.

CommonWealth Kitchen, Inc.

Notes to Financial Statements

December 31, 2017

1. *Operations*

CommonWealth Kitchen, Inc. (“CWK”), formerly Crop Circle Kitchen, Inc., was incorporated in July 2009, and was organized to secure the current and future success of Boston’s only nonprofit food business incubator and shared manufacturing facility. CWK provides rental of shared commercial kitchen space combined with technical assistance for start-up and growing food producers to help build their wholesale and retail food businesses, and to create local jobs.

2. *Summary of Significant Accounting Policies*

Revenue and Expense Recognition - The accompanying financial statements are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America, whereby revenue is recognized when earned and expenses are recorded when incurred.

Financial Statement Format - CWK classifies its net assets, revenues and expenses into two classes of net assets - temporarily restricted and unrestricted, based on the existence or absence of donor imposed restrictions on contributions received.

Rental Fees - CWK’s rental income is from short-term rental fees for kitchen and storage services from culinary entrepreneurs who are members of the CWK incubator program. Rental fees are recorded when earned.

Contributions - Contributions, including unconditional promises to give, are recognized as revenue in the period received. Conditional promises to give are not recognized until they become unconditional, that is, at the time when the conditions on which they depend are substantially met. Contributions of assets other than cash are reported at their estimated fair value.

Contributions received without donor imposed restrictions, or with donor imposed restrictions that are satisfied in the same year as received, are recorded as revenues within the unrestricted net asset class. Contributions received with donor imposed specific purpose or time restrictions that are not satisfied within the same year are recorded as revenue within the temporarily restricted net asset class. When a restriction has been satisfied (payment has been made in accordance with the restriction or the time restriction has expired), the temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Accounts, Pledges and Grants Receivable - An allowance for uncollectible accounts, pledges and grants receivable is provided based upon management’s judgement of potential defaults. The determination includes such factors as prior collection history, type of contribution, and nature of fundraising activities. Allowance for uncollectible accounts receivable totaled \$3,538 at December 31, 2017. No allowance has been recorded for pledges and grants receivable, as management has determined these accounts to be fully collectible.

CommonWealth Kitchen, Inc.
Notes to Financial Statements - *Continued*
December 31, 2017

2. ***Summary of Significant Accounting Policies - Continued***

Fixed Assets/Other Assets - Assets that have a useful life of more than one year are capitalized at cost. Depreciation is provided using the straight-line method over the estimated useful lives of the fixed assets. Leasehold improvements are capitalized at cost and amortized over the life of the lease. CWK's website is presented on the statement of financial position net of accumulated amortization, totaling \$5,612 at December 31, 2017. Depreciation and amortization expense for the year ending December 31, 2017 totaled \$55,847 and \$7,367, respectively. Amortization expense is estimated to be \$6,635 in 2018, and \$4,927 per year in 2019 through 2022

Functional Allocation of Expenses - The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Estimates and Assumptions - The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Income Taxes - CWK is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code and state income taxes under Chapter 180 of the Massachusetts General Laws. Unrelated business income, of which there was none for the year ended December 31, 2017, would be subject to federal and state income taxes. Consequently, the accompanying financial statements do not reflect any provision for income taxes.

CWK evaluates tax positions taken or expected to be taken in its tax returns to determine whether the tax positions are *more-likely-than-not* to be sustained by the applicable federal and state authority. Tax positions not deemed to meet the *more-likely-than-not* threshold, along with accrued interest and penalties thereon, would be recorded as an expense in the current year financial statements. CWK has evaluated the tax positions taken in its previously filed returns and those expected to be taken in its 2017 returns, and believe they are *more-likely-than-not* to be sustained if examined by federal or state tax authorities. CWK's 2014 through 2016 tax years remain subject to examination by federal and state tax authorities.

Investment in Limited Liability Corporation - CWK accounts for its investment in a non-controlled limited liability Corporation (LLC) using the equity method of accounting. Under the equity method, the investment is carried at cost and adjusted for the LLC's share of income, losses, additional investments, and cash distributions from the LLC. CWK ceases recognition of losses for financial statement purposes once the cost of the investment is reduced to zero. Changes in the value of the investments, which are other than temporary, are recognized as necessary.

CommonWealth Kitchen, Inc.
Notes to Financial Statements - *Continued*
December 31, 2017

3. ***Loans Payable***

Boston Impact Initiative LLC

Two year loan dated October 14, 2013 at an interest rate of 4% per annum. This loan was amended in December 2016 whereas \$10,000 of the loan principal was forgiven and CWK made monthly principal payments beginning in December 2016 through October 1, 2017. If all payments are timely made, interest on this loan will be forgiven. If any loan payments are in default, the interest rate on this loan will increase to 6% per annum. This loan is secured by all assets of CWK. During 2017, the remaining loan balance of \$14,597 was forgiven.

City of Boston

Note payable to the City of Boston dated February 15, 2016. The loan is noninterest bearing and provides for loan forgiveness based on the number of jobs created by CWK's operations. This loan is secured by all assets of CWK. During 2017, the City of Boston has forgiven the balance on this loan, totaling \$95,000, as a result of CWK satisfying the City's job creation goals of this loan at that time.

Eastern Bank

CWK had a \$200,000 line of credit with Eastern Bank. Advances on this line of credit are payable on demand and carry an interest rate of 1% over the prime rate. The credit line is collateralized by a security interest in CWK's equipment. The outstanding balance on the line of credit at December 31, 2017 was \$60,000.

Related Party Loans

Demand loan payable to the current CWK Executive Director, dated February 22, 2013 (Note 5). This unsecured loan bears compounded interest at 10% per annum. Accrued interest payable at December 31, 2017 totals \$18,547. The ending principal balance at December 31, 2017 is \$30,000. The principal and accrued interest balances have been paid in full in 2018.

Noninterest bearing loan payable to DBEDC to cover staff, smallware items, and other operating costs of the *Bornstein & Pearl Building Food Production Small Business Center* (Notes 4, 5 and 6). The loan is payable in four installments beginning September 30, 2015 and ending October 1, 2016. The ending principal balance on this loan at December 31, 2017 is \$24,000. CWK has not made the required principal payments on this loan, and the loan was forgiven in 2018.

4. ***Investment in Limited Liability Corporation***

CWK has entered into a joint venture with Dorchester Bay Economic Development Corporation (DBEDC), a Massachusetts nonprofit organization, through co-membership in DB Pearl QALICB, LLC, to create a share-use and multi-tenant commercial kitchen facility that meets the needs of a range of start-up, early stage, growing, and established food production businesses. CWK shares property management duties with a professional management agent selected by DBEDC, overseeing the day-to-day operations of the *Bornstein & Pearl Building Food Production Small Business Center* located in Dorchester, MA (Note 5). CWK has made member capital contributions totaling \$21,500 as of December 31, 2017. CWK is also the sole member in CCK Pearl LLC, which was created to operate this facility.

CommonWealth Kitchen, Inc.
Notes to Financial Statements - *Continued*
December 31, 2017

4. ***Investment in Limited Liability Corporation - Continued***

The assets and liabilities of the DB Pearl QALICB, LLC as of December 31, 2017, and revenues and expenses for the year then ended are as follows:

Assets	\$ 12,988,259
Liabilities	<u>13,481,600</u>
Equity	<u>\$ (493,341)</u>
Revenue	\$ 646,204
Expenses	<u>798,448</u>
Net loss	<u>\$ (152,244)</u>

No amount is recorded in the 2017 financial statements as CWK's share of their investment is less than their cost.

5. ***Lease Commitments***

In connection with the operational activity of the *Bornstein & Pearl Building Food Production Small Business Center* (Note 4), CWK (through CCK Pearl LLC) has entered into a sublease agreement with DB Pearl Master Tenant LLC, a Massachusetts limited liability company, for operating space at 196 Quincy Street, Boston, MA. The term of the sublease is for ten years beginning on the date of certificate of occupancy, which occurred in late March, 2014. The sublease includes an option to extend the sublease on similar terms and conditions for a period of five years. The sublease requires fixed monthly rent, in addition to annual percentage rent starting in July 1, 2015, totaling five percent (5%) of the amount by which CWK's gross income exceeds certain breakpoints, as defined in the sublease agreement. The sublease also requires payment of CWK's proportionate share of operating costs and real estate taxes with respect to the building and the property on which it is located. Total amounts expensed under this lease were \$185,378 for rent, \$135,236 for common area expenses, and \$92,374 for utilities for the year ended December 31, 2017.

Future minimum lease payments under this lease are as follows:

<i>Year</i>	<i>Amount</i>
2018	\$ 203,486
2019	272,322
2020	338,092
2021	288,907
2022	297,574
Thereafter	<u>306,501</u>
Total	<u>\$ 1,706,882</u>

CommonWealth Kitchen, Inc.
Notes to Financial Statements - *Continued*
December 31, 2017

6. ***Related Party Transactions***

CWK has an outstanding loan payable to the current CWK Executive Director totaling \$30,000 (Note 3). The unsecured loan bears interest at 10% and is payable on demand. Accrued interest payable totaled \$18,547 at December 31, 2017, and interest expense for the year ended totaled \$7,809. The principal and accrued interest balances have been paid in full in 2018.

CWK has an outstanding loan payable to DBEDC totaling \$24,000. The loan was used to cover staff, smallware items, and other operating cost for the *Bornstein & Pearl Building Food Production Small Business Center* (Notes 3 and 5). This unsecured, noninterest bearing loan is payable in four installments beginning September 30, 2015 and ending October 1, 2016. The loan was forgiven subsequent to year end.

CWK leases its facility from DB Pearl Master Tenant LLC, a Massachusetts limited liability company with DBEDC as its sole member. CWK provides management and cleaning services for the facility as a part of the lease, totaling \$45,372 of fee income for the year ending December 31, 2017. DBEDC invoices CWK on a monthly basis for rent, common area expenses, and utilities, totaling \$406,379 for the year then ended. At December 31, 2017 the net amount owed to DBEDC totaled \$6,838. CWK also has deferred rent payable on this lease totaling \$57,600 that is due in 2020. During 2017, DBEDC agreed to forgive unpaid rental amounts totaling \$101,315.

7. ***Guaranty***

CWK has made a certain guaranty regarding a \$2.56 million loan made by Boston Community Loan Fund, Inc. (BCLF), a Massachusetts nonprofit organization, to DB Pearl Master Tenant LLC (the Borrower) for the purpose of renovating the *Bornstein & Pearl Building Food Production Small Business Center* (Note 4), inclusive of the following "Guaranteed Liabilities":

- a. the full and prompt payment to BCLF when the loan is due, and;
- b. the prompt, full and faithful performance and discharge by the Borrower of each and every of the terms, conditions, agreements, representations and warranties on the part of the Borrower contained in any agreement.

CWK further agrees to pay all reasonable expenses, legal and otherwise paid or incurred by BCLF in endeavoring to collect the Guaranteed Liabilities or in enforcing this Guaranty. The Guaranteed Liabilities and reasonable expenses shall not exceed the sum of \$50,000 in the aggregate and all distributions received by CWK from DB Pearl QALICB, LLC.

8. ***Credit Risk***

CWK maintains its cash in bank deposit accounts which, at times, may exceed Federal insured limits. CWK has not experienced any losses in such accounts. Management believes it is not exposed to any significant credit risk on cash deposits.

CommonWealth Kitchen, Inc.
Notes to Financial Statements - *Continued*
December 31, 2017

9. ***Conditional Promise to Give***

During 2017, CWK received a conditional promise of \$500,000, due in \$50,000 annual increments over ten years, of which \$50,000 was received in 2017. The future payments are contingent upon the discretion of the granting organization. Since the future payments represent conditional promises to give, they are not recorded as contribution revenue until donor conditions are met.

10. ***Contingencies***

CWK contracts with governmental agencies and third party payers. The contracts are subject to audit by the respective funding source and could result in the recapture of revenue previously reported by CWK. Management does not believe that any such disallowance, if found, would be material to CWK's financial statements. Accordingly, no provision for any liability that may result has been made in the financial statements.

11. ***Temporarily Restricted Net Assets***

Temporarily restricted net assets at December 31, 2017 consisted of both pledges receivable and contributions received that have not yet been expended in accordance with donor restrictions.

12. ***Board Designated Net Assets***

CWK's Board of Directors established a board-designated reserve fund to be used only after consulting with the board of directors. It is anticipated the reserve will be funded annually based on the current year's net income. The board has designated \$25,000 for this reserve as December 31, 2017.

13. ***Subsequent Events***

CWK has evaluated subsequent events through September 17, 2018, which is the date the financial statements were available to be issued. Except for DBEDC's debt forgiveness in 2018 as described in Note 3, no other subsequent events have occurred since December 31, 2017 that requires recognition or additional disclosure in these financial statements.